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## Ireland's Economic Environment:the SCM context

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# **Ireland's Economic Environment – the SCM context**

**Edward Sweeney, NITL**

## **Background**

This Technical Focus provides an overview of recent developments in the Irish economy and relates this to some of the key drivers of SCM. It is aimed at providing background to the feature articles in this issue of *Logistics Solutions* by presenting key data in relation to economic and industrial development.

## **Economic Overview<sup>1</sup>**

Ireland is a small, open, trade-dependent economy and is one of the fastest growing economies in the developed world. It currently constitutes around 1.8 per cent of overall output in the Euro Area. In recent decades the Irish economy has been transformed from being agrarian and traditional manufacturing based to one increasingly based on the hi-tech and internationally traded services sectors. In 2003, the services sector accounted for 66 per cent of employment, industry for 28 per cent and agriculture for six per cent.

Over the last decade, unprecedented economic growth has seen the level of Irish real gross domestic product (GDP) almost double in size. This is reflected, for example, in headlines in the *Economist* such as: 'Ireland: Europe's tiger economy' and 'Ireland shines' (Economist, 1997); 'Tiger, tiger, burning bright' and 'Lessons from the Irish miracle' (Economist, 2004). There have been many reasons advanced for Ireland's success, which in combination can help explain the exceptionally strong growth rates experienced (e.g. Layte *et al.*; Economist, 2004). They include European Union (EU) membership and access to the Single Market; a high proportion of the population of working age; increased participation in the labour market especially by females; a reversal of the trend of emigration toward immigration; sustained investment in education and training; relatively low corporation tax rate and a large multinational presence; coordinated social partnership agreements and a more stable public finance position.

In the context of SCM, the openness of the Irish economy is reflected both in the international mobility of its labour and capital and high levels of foreign direct investment (FDI). Ireland's share of global and EU FDI has risen sharply in recent years. From just under four percent of the total in 2000, Ireland accounted for more than one twelfth of total inflows to the EU-15 in 2003. On a

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<sup>1</sup> The economic data in this section is from the Economic and Social Research Institute (ESRI, 2005).

global basis, the rate of increase was similar, reaching almost 5 per cent of total world inflows (Forfas, 2005). The US was the biggest source of FDI in 2003 with flows from that source estimated at approximately €8bn. or 25 per cent of the total. In terms of stocks of FDI, UNCTAD (2004) records a figure for Ireland equivalent to 127 per cent of GDP in 2003 (\$193bn.). In absolute terms, this is the sixth highest level among the EU-15 and by far the largest in per capita terms.

Ireland's high level of external trade is reflected in the high ratio of combined exports and imports of goods to GDP which was just under 100 per cent in 2003. The global nature of this trade can be seen from the data presented in Appendix 1 (CSO, 2005).

### **Outsourcing**

It is evident from the previous section that in recent years Ireland has been a major destination for activities which have been 'offshored', particularly by US companies. Whilst there is much discussion about the outsourcing of supply chain activities by companies based in Ireland, there is limited published evidence about the extent of outsourcing of supply chain activities by companies in Ireland. In relation to manufacturing there is evidence that significant amounts of (mainly labour intensive) activity has migrated eastwards to lower labour cost locations mainly in Eastern Europe and parts of Asia (ESG, 2004). The growth in the logistics service sector is indicative of both increasing amounts of economic activity and of more outsourcing of transportation and warehousing activities to third party logistics (3PL) service providers. A large proportion of Ireland's total logistics expenditure is outsourced (Marketline International, 1997) with a large proportion of manufacturing companies outsourcing some or all of their transport and logistics activities (NITL, 1999).

### **Other Issues**

A number of other issues combine to make logistics and SCM particularly critical from an Irish perspective. Firstly, the country's relatively peripheral location results in transportation costs for companies based in Ireland being higher than those in more favourable locations (Forfas, 1995)<sup>2</sup>. Furthermore, recent changes in the corporate taxation regime (in particular the introduction of a 12.5% tax rate on service businesses) makes the option of companies establishing business units

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<sup>2</sup> This Forfas report, which resulted in the establishment of NITL, suggested that by adopting more integrated approaches to logistics management companies based in Ireland could to some extent compensate for relatively high transportation costs.

(profit centres) in Ireland with responsibility for the management of supply chain activities more attractive<sup>3</sup>.

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<sup>3</sup> The Ingersoll-Rand operation in North Dublin is an example of some of this thinking in practice.

## Appendix 1 – Republic of Ireland External Trade 2004

€ million

Country	Imports				Exports			
	Feb 2004	Feb 2005	Jan-Feb 2004	Jan-Feb 2005	Feb 2004	Feb 2005	Jan-Feb 2004	Jan-Feb 2005
Great Britain	1,159.2	1,210.4	2,253.0	2,379.0	1,115.0	1,079.2	2,147.7	2,109.1
Northern Ireland	86.1	85.8	176.8	159.9	120.5	111.0	224.2	208.0
Austria	10.5	17.7	18.1	24.7	26.6	26.6	53.6	56.6
Belgium	65.0	82.5	118.2	163.1	948.7	1,136.7	1,793.4	1,790.1
Cyprus	0.7	0.6	1.1	0.9	1.2	1.3	3.0	2.6
Czech Republic	12.7	13.8	23.5	30.4	17.3	13.0	30.4	28.1
Denmark	48.2	86.0	152.9	155.5	35.3	39.3	80.7	83.8
Estonia	3.1	0.9	5.1	1.7	1.5	0.7	3.0	1.9
Finland	21.7	22.3	40.5	39.8	24.2	23.6	46.9	45.1
France	163.3	221.3	318.5	410.1	387.6	409.2	816.8	820.4
Germany	341.7	337.8	636.3	690.5	534.3	443.4	1,060.2	953.1
Greece	3.1	4.0	7.8	6.9	33.2	21.0	63.4	44.8
Italy	88.9	101.8	171.0	181.3	391.9	263.8	659.3	573.4
Latvia	4.2	1.3	8.0	5.1	1.4	0.7	2.6	1.0
Lithuania	3.8	1.7	5.0	3.3	0.8	0.7	1.4	1.4
Luxembourg	1.8	2.4	3.9	4.9	12.2	11.4	17.6	24.5
Hungary	26.4	15.5	50.5	24.8	14.6	7.3	25.6	21.9
Malta	0.4	0.2	0.6	0.4	1.1	0.9	2.5	1.7
Netherlands	162.8	164.5	294.1	324.4	298.0	319.9	614.1	634.2
Poland	11.4	10.6	21.3	18.6	22.5	17.4	41.7	35.8
Portugal	14.8	14.3	29.6	29.7	27.1	20.3	51.0	49.8
Slovakia	3.4	0.8	5.3	1.5	4.4	1.9	7.4	3.6
Slovenia	1.5	0.8	2.3	1.7	3.9	1.7	7.0	2.8
Spain	72.6	64.1	129.3	120.4	156.9	216.9	314.1	374.9
Sweden	40.8	51.8	80.4	89.3	82.3	78.7	173.2	159.6
EU Country not specified	34.1	31.5	64.1	63.0	0.5	4.1	0.5	11.5
<b>Total EU<sup>1</sup></b>	<b>2,382.1</b>	<b>2,544.5</b>	<b>4,617.1</b>	<b>4,931.1</b>	<b>4,263.3</b>	<b>4,250.9</b>	<b>8,241.5</b>	<b>8,040.0</b>
<i>of which</i> EU-15	<b>2,314.7</b>	<b>2,498.3</b>	<b>4,494.6</b>	<b>4,842.5</b>	<b>4,194.4</b>	<b>4,205.1</b>	<b>8,116.9</b>	<b>7,938.9</b>
Australia	7.4	17.2	22.9	24.4	50.0	44.7	101.9	94.7
Brazil	8.8	15.7	21.6	32.3	6.0	7.2	15.1	19.3
Canada	24.1	22.1	41.9	42.4	22.1	28.5	54.0	48.2
China	187.1	236.2	396.8	499.5	34.9	55.3	92.1	124.1
Hong Kong	25.0	47.5	54.6	87.6	49.4	54.5	105.4	112.5
India	9.8	16.6	20.5	33.1	11.6	7.1	18.3	14.9
Japan	171.0	180.4	345.9	394.6	169.1	181.1	324.1	330.0
Malaysia	32.5	44.4	66.5	100.7	32.6	34.2	76.9	67.4
Mexico	11.0	11.0	23.2	19.5	23.8	38.5	57.7	78.2
Norway	91.3	81.1	179.5	174.2	45.0	51.4	85.1	101.9
Philippines	7.3	7.9	17.5	18.7	14.3	20.0	36.1	35.6
Russia	7.1	3.9	17.0	10.4	18.9	12.7	30.3	24.0
Singapore	63.2	51.3	141.7	122.3	47.4	80.5	136.2	130.4
South Africa	8.2	9.4	18.5	19.5	21.0	21.3	40.7	33.0
South Korea	56.3	85.3	129.1	190.6	46.0	22.0	82.3	53.8
Switzerland	29.9	55.2	77.1	93.0	172.3	207.5	491.7	582.4
Taiwan	62.7	74.0	127.3	150.5	18.9	22.8	38.0	54.2
Thailand	33.4	24.3	68.8	55.4	6.4	16.9	20.6	29.5
Turkey	19.4	46.1	46.8	78.2	28.1	24.6	50.8	45.5
USA	493.5	506.1	1,079.4	1,127.5	1,566.6	1,255.4	2,498.0	2,639.0
Other countries <sup>2</sup>	79.2	82.8	166.0	165.2	147.0	168.9	325.1	317.8
Country unknown <sup>3</sup>	8.8	1.8	19.1	10.7	26.4	16.6	56.9	33.5
Unclassified estimates <sup>4</sup>	68.0	85.7	137.0	164.4	1.7	9.6	3.0	11.9
<b>Total</b>	<b>3,887.1</b>	<b>4,250.6</b>	<b>7,835.8</b>	<b>8,545.9</b>	<b>6,822.5</b>	<b>6,632.0</b>	<b>12,981.8</b>	<b>13,021.9</b>

<sup>1</sup> On 1st May 2004, ten countries joined the EU - Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

<sup>2</sup> Other non-EU countries not listed individually.

<sup>3</sup> Trade for which the country of origin or country of final destination is unknown.

<sup>4</sup> Estimates not allocated by country.